

Small Employers and Health Benefits: Findings from the 2000 Small Employer Health Benefits Survey

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- Many small employers (between two and 50 workers) are making decisions about whether to offer health benefits to their workers without being fully aware of the tax advantages that can make this benefit more affordable. Fifty-seven percent of small employers did not know that they can deduct 100 percent of their health insurance premiums.
- Nearly one-half of small employers are not aware that workers who purchase health insurance on their own generally cannot deduct 100 percent of their health insurance premiums.
- Small employers are largely unaware of the laws that have been enacted by nearly all states and the federal government with the intent of making health insurance more accessible and more affordable for many small employers. More than 60 percent did not know that insurers may not deny health insurance coverage to small employers even when the health status of their workers is poor.
- Most employers offer sound business reasons for offering health benefits to workers. Many have found that it helps with employee recruitment and retention, increases productivity, and reduces absenteeism.
- Nearly 50 percent of the employers offering dependent (family) coverage report that the workers do not take coverage for their dependents because the dependents have coverage from somewhere else. Twenty-seven percent report their employees decline dependent coverage because they cannot afford the premiums.
- Many small employers that do not offer health benefits are potential purchasers. Twelve percent are either extremely or very likely to start offering health benefits in the next two years, and 17 percent are somewhat likely to start offering health benefits.
- A number of factors would increase the likelihood that a small business would seriously consider offering a health benefits plan. Two-thirds of small-business owners said they would seriously consider offering health benefits if the government provided assistance with premiums. Almost one-half would consider doing so if insurance costs fell 10 percent. In addition, one-half would be more likely to seriously consider offering a health benefits plan if employees demand it.
- Many small employers with health benefits have recently switched health plans, and 34 percent report that they did so within the past year.
- Affordability for the employer and the worker is clearly a critical factor affecting the likelihood of switching health plans. Nearly all employers who have switched health plans within the past five years cite cost as the main reason. One-third of companies offering health benefits think they will change coverage, and 5 percent think they would drop coverage if the cost of health insurance were to increase by 5 percent.

Paul Fronstin of EBRI and Ruth Helman of Mathew Greenwald & Associates, Inc. (MGA) wrote this *Issue Brief* with assistance from the Institute's research and editorial staffs. Any views expressed in this report are those of the authors and should not be ascribed to the officers, trustees, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

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Introduction

Employment-based health insurance is by far the most common form of health insur-

ance coverage in the United States. Nearly 100 million workers, or 73 percent of the adult working population, were covered by employment-based health benefits in 1998 (Fronstin, 2000). Overall, the employment-based health insurance system covered nearly 155 million Americans under age 65, or 65 percent of the nonelderly population. In contrast, public programs such as Medicaid, Medicare, Tricare,¹ and CHAMPVA² covered 14 percent of the nonelderly population.

Employers offer health benefits to workers for a number of reasons. Health benefits provide workers and their families with protection from financial losses that can accompany unexpected serious illness or injury. Health benefits can also be used to promote health, to increase worker productivity, and as a form of compensation to recruit and retain qualified workers. When asked to rank the importance of all employee benefits, health benefits are by far the benefit most valued by workers and their families. Sixty-five percent of workers responding to a recent survey rated employment-based health benefits as the most important benefit (Salisbury and Ostuw, 2000).

Most workers who have access to employment-based health benefits take up coverage from that employer. In 1997, 83 percent of workers whose employer offered them health benefits were covered by that plan (Fronstin, 1999). Of the remaining 17 percent not participating in their employers' benefits plan, 61 percent were covered by another health plan. In other

words, of workers offered health benefits by their employer, 83 percent were covered by that plan, 10 percent had coverage elsewhere, while 7 percent remained uninsured. Furthermore, only 5 percent of workers not covered by their own employers' health benefits purchase health insurance coverage on their own.

The likelihood that a worker has health insurance coverage from his or her employer varies substantially by firm size. Workers in the smallest firms tend to be the least likely to have health benefits from their own employer. In 1998, 27 percent of workers employed in firms with fewer than 10 employees were covered by the employer's health benefits (Fronstin, 2000). Nearly 40 percent of workers employed in a firm with 10 to 24 employees had coverage from their employer, and 54 percent of workers in firms with 25 to 99 employees had coverage from their employer. In contrast, 67 percent of workers in firms with 1,000 or more employees were covered by their employers' health benefits.

The likelihood that a worker has coverage from his or her own employer is a function of whether the employer offers health benefits and whether the employee takes it when offered. Overall, workers in small firms are less likely to be offered health benefits. In 1997, 57 percent of workers in firms with fewer than 100 employees were offered coverage, compared with 85 percent of workers in firms with 100 or more employees (Fronstin, 1999). When offered coverage, workers in small firms are also less likely than workers in large firms to take coverage. In 1997, 75 percent of workers in firms with fewer than 100 employees took the coverage when it was offered, compared with 86 percent of workers in firms with 100 or more employees.

As mentioned above, the employment-based health insurance system is the most common form of health insurance in the United States. While most workers participate in their employers' health plan when it is offered to them, many workers are clearly not offered health benefits or do not participate in the plan when it is offered. Of the 44 million Americans who do

¹ Tricare, formerly known as CHAMPUS (the Civilian Health and Medical Program of the Uniformed Services), covers military retirees as well as families of active duty, retired, and deceased service members.

² CHAMPVA, the Civilian Health and Medical Program of the Veterans Administration, covers dependents of totally disabled veterans and certain survivors of veterans.

not have health insurance coverage, 36 million (or 82 percent) are in a family with a worker, and 60 percent of uninsured workers are employed by small firms (Fronstin, 2000). Since workers in small firms are less likely to be offered health benefits than workers in large firms, it is important to understand why small employers are less likely than large employers to offer health benefits, and what factors would persuade more small employers to offer health benefits to workers.

This *Issue Brief* presents findings from the 2000 Small Employer Health Benefits Survey (SEHBS). The survey examines a number of issues related to small employers (between two and 50 workers) and their decision to offer—or not offer—health benefits to workers. The goal of the survey was to gather information to better understand what would make more small employers offer health benefits. Since the vast majority of large employers offer health benefits, but many small employers do not, small businesses are seen as perhaps the most crucial element in efforts to expand health insurance coverage in the current health insurance system and reduce the growing number of uninsured Americans.

Tax Treatment

Currently, health insurance premiums paid by employers on behalf of workers are

tax-deductible for employers. They are treated the same way other labor costs and general business expenses are treated under the tax code: The costs of health benefits are tax-deductible as a business expense, just like wages and salaries.

Tax-favored treatment is extended to the recipients of health benefits as well as the sponsors: The amount that employers pay on behalf of workers is excluded, without limit, from workers' taxable income. However, under the existing tax code, workers who purchase health insurance directly from an insurer generally cannot deduct any of the premium from their

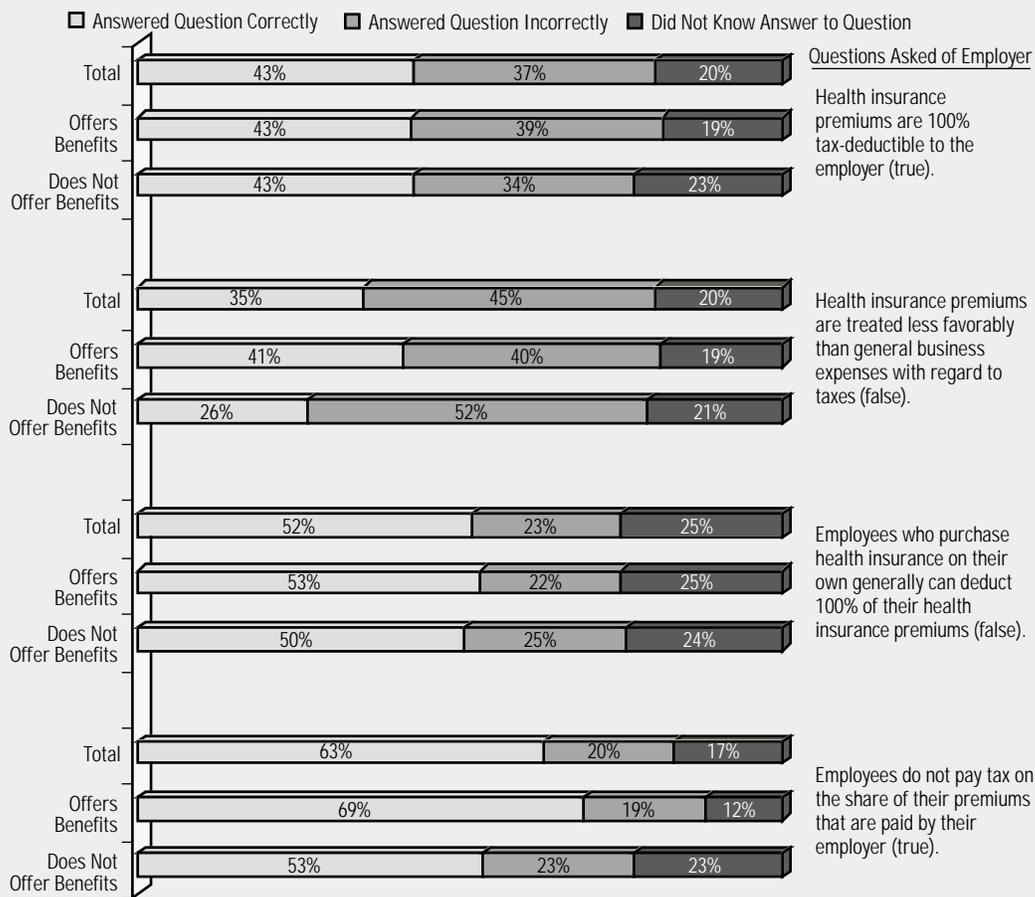
taxable income. For individuals who do not receive employment-based health benefits, total health care expenses (including premiums) are deductible only if they exceed 7.5 percent of adjusted gross income, and only the amount that exceeds 7.5 percent of adjusted gross income is deductible.

The health insurance premiums of the self-employed are treated differently from those for active workers. Under current law, the self-employed are able to deduct only 60 percent of the cost of their own health insurance. However, beginning in 2003 they will be able to deduct 100 percent of the cost of their health insurance premiums.

Many small employers are making decisions about whether or not to offer health insurance coverage to their workers without being fully aware of the tax advantages that can make this benefit more affordable. For example, 57 percent of all small employers surveyed in the 2000 SEHBS did not know that health insurance premiums are 100 percent tax deductible (chart 1). Furthermore, 65 percent of respondents to the survey did not realize that health insurance premiums are treated like general business expenses with regard to taxes. On this point, it was found that small employers *not* offering health benefits were even less aware than employers that *do* offer health benefits: Nearly 60 percent of employers offering health benefits did not know that health insurance premiums are treated like general business expenses, compared with 73 percent of employers that did not offer health benefits.

With respect to employers' knowledge about the tax treatment of health benefits as it affects their workers, many employers continue to make false assumptions. Nearly one-half are not aware that employees who purchase health insurance on their own generally cannot deduct 100 percent of their health insurance premiums. Also, 37 percent did not know that employees do not pay tax on the share of their premiums that are paid by their employer. However, employers offering health benefits were much more likely to be aware of this provision in the tax code. Specifically, 69 percent of

Chart 1
Small Employer Knowledge of the Tax Treatment of Health Benefits



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

employers offering health benefits understood that the employer share of the premium was not included in an employee's taxable income, compared with 53 percent of employers not offering health benefits.

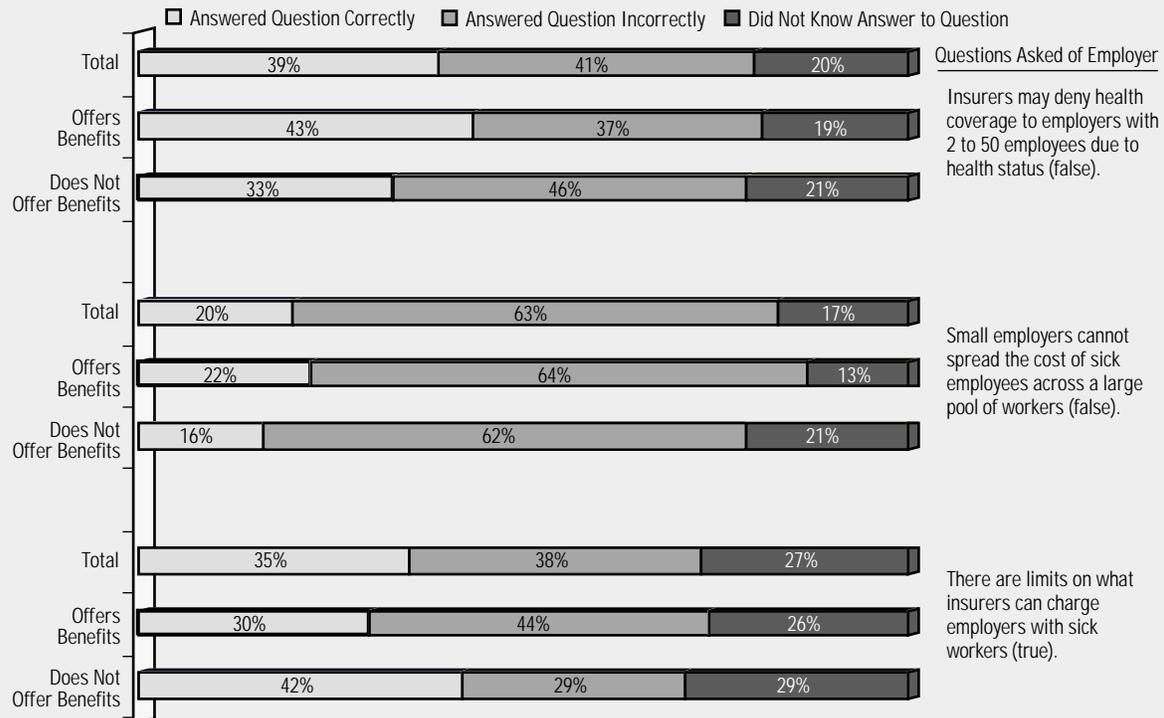
While the survey found a number of cases where employers offering health benefits were more knowledgeable than employers not offering health benefits about the tax treatment of health benefits as it applies to themselves or their workers, a surprisingly high percentage of employers offering health benefits still do not understand how those benefits are treated by the tax code. It is important for employers to understand the tax treatment of health benefits for a number of reasons, probably the most important being that misperceptions about how health benefits are taxed may prevent employers from offering health benefits to begin with. In addition, if employers are unaware of how the tax code affects their workers, it is likely that the workers are also unaware, and also do not know the true value of the health benefits they are being offered.

Insurance Regulation

During the mid-1990s, nearly every state in the nation passed laws designed to

make health benefits more affordable and accessible for small employers. In addition, in 1996, the federal government passed the Health Insurance Portability and Accountability Act (HIPAA), which set minimum accessibility standards across the states. Laws to improve accessibility included "guaranteed issue" and "guaranteed renewal" requirements. *Guaranteed issue* generally requires insurers offering coverage in the small group market to offer coverage to *any* small group regardless of the health status or prior claims experience of the group's members. *Guaranteed renewal* generally requires insurers offering health benefits in the small group market to renew an employer's health coverage at the employer's option.

Chart 2
Small Employer Knowledge of Small Group Market Regulations



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Rating Bands and Small-Group Pooling

Laws that affect affordability were enacted to change the way premiums were determined by insurers offering health insurance in the small group market. In some states, insurers were required to use “rating bands,” which are restrictions on the difference between the highest and lowest premiums an insurer can charge its group members. Rating restrictions vary by state. Some states limit the use of worker health status and prior claims experience in determining premiums. The limits can be loose or very tight depending upon the state. Some states even passed laws, known as community rating laws, which essentially prohibit the use of past claims experience or health status in setting premiums for small groups. Some community rating laws even go so far as to prohibit the use of demographics in determining premiums.

Overall, state rating regulations were designed to require insurers to “pool” small employers together in order to provide cross-subsidies for employers with high-cost workers. As a result, all small employers buying insurance in a geographic region would experience less variation in the premium due to the prior claims experi-

ence or the health status of their own particular workers. In effect, insurers group all small employers into one large “pool” in order to determine premiums.

Employer Awareness

Small employers are largely unaware of the state and federal laws that have been enacted with the specific intent of making health insurance more accessible and more affordable for them. Thirty-nine percent understood that insurers may not deny health insurance coverage to small employers even when the health status of their workers is poor (chart 2). Consistent with earlier findings, employer-sponsors of health benefits were more likely than nonsponsors to be aware of these guaranteed issue and renewal laws (43 percent and 33 percent, respectively).

Only 20 percent of employers responding to the survey realized that states have in effect required insurers to spread the cost of small employers with sick employees across a large pool of workers through the use of rating restrictions. In addition, only 35 percent of small employers are aware that there are limits on what insurers can charge employers with sick workers com-

pared with employers that have healthier workers.

In general, small employers are not knowledgeable

about state small-group market reforms passed during the mid-1990s that essentially make it easier for them to obtain and afford coverage. These laws prevented insurers from denying coverage to small employers with unhealthy workers, and also prevented them (through the use of rating restrictions) from charging unhealthy groups more than healthy groups. It is important for small employers to understand how the insurance market is regulated: Misconceptions about the market may result in fewer employers offering coverage because they are under the impression that they cannot obtain or afford coverage due to the health status of their workers.

Impact of Offering Benefits

As mentioned earlier, employers offer health benefits for a number of reasons. Most employers generally offer sound business reasons for offering health benefits to workers. Among the small employers responding to the survey, 80 percent report that it helps with recruitment and retention (table 1). In addition, 70 percent report that it increases productivity by keeping employees healthy; 69 percent report that employees demand it; and 68 percent report that it reduces absenteeism by keeping workers healthy. Interestingly, 88 percent of employers report that they offer health benefits because it is the right thing to do.

When specifically asked whether offering health benefits has a beneficial impact on their business, most small employers with benefits agree that it does. Nearly 80 percent say that offering this benefit has had an impact on employee recruitment, with almost one-half

Table 1
Reasons for Offering Health Benefits

	Reason	Major Reason	Minor Reason
It is the right thing to do.	88%	71%	17%
It helps with employee recruitment.	80	58	22
It increases loyalty and decreases turnover.	80	53	27
It increases productivity by keeping employees healthy.	70	37	33
Employees demand or expect it.	69	38	31
It reduces absenteeism by keeping employees healthy.	68	31	37
Competitors offer it.	65	35	30
Tax deductible for the employer.	61	23	38
Tax treatment for employees.	46	11	35
One or more employees have medical problems.	34	11	23

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

reporting that it has had a major impact (46 percent) (table 2). Three-fourths indicate it has had a major or minor impact on

employee retention and employee attitude and performance, 67 percent report an impact on the health of their employees, and 58 percent state that offering health benefits has had an impact on absenteeism.

The likelihood of reporting an impact is higher for larger than for smaller firms, but even among those with two to nine workers, majorities indicate that offering health benefits has had an impact on each of these factors. According to table 2, 74 percent of those with two to nine workers say it has had a major or minor impact on employee recruitment, compared with 88 percent among employers with 25 to 50 workers. About 70 percent of employers with two to nine workers report that health benefits have had an impact on retention, compared to 84 percent among employers with 25 to 50 workers.

In contrast to the value perceived by respondents from firms with health benefits, most of those from companies that do not offer workers health coverage tend to think that not having health benefits has no impact on these factors. Roughly 75 percent of employers not offering health benefits report that not offering them has had no impact on employee recruitment, employee retention, employee attitude and performance, and the health of their employees (chart 3). In addition, 85 percent report that not offering health benefits has had no impact on absenteeism.

While employers not offering health benefits generally do not perceive that the lack of health benefits has an impact on employee retention, those without coverage are more likely than those with coverage to report that most of their employees stay only a few months. Specifically, 9 percent of employers not offering health benefits reported high turnover of workers, compared with 3 percent of employers offering health

Table 2
Impact of Offering a Plan, by Size of Business

	Total		2-9 Workers		10-24 Workers		25-50 Workers	
	Major impact	Minor impact	Major impact	Minor impact	Major impact	Minor impact	Major impact	Minor impact
Employee Recruitment	46%	32%	42%	32%	51%	31%	57%	31%
Employee Retention	39	37	34	37	47	35	49	35
Employee Attitude and Performance	32	43	29	43	35	47	41	40
Health of Employees	32	35	29	32	37	42	43	38
Absenteeism	17	41	17	37	17	47	17	51

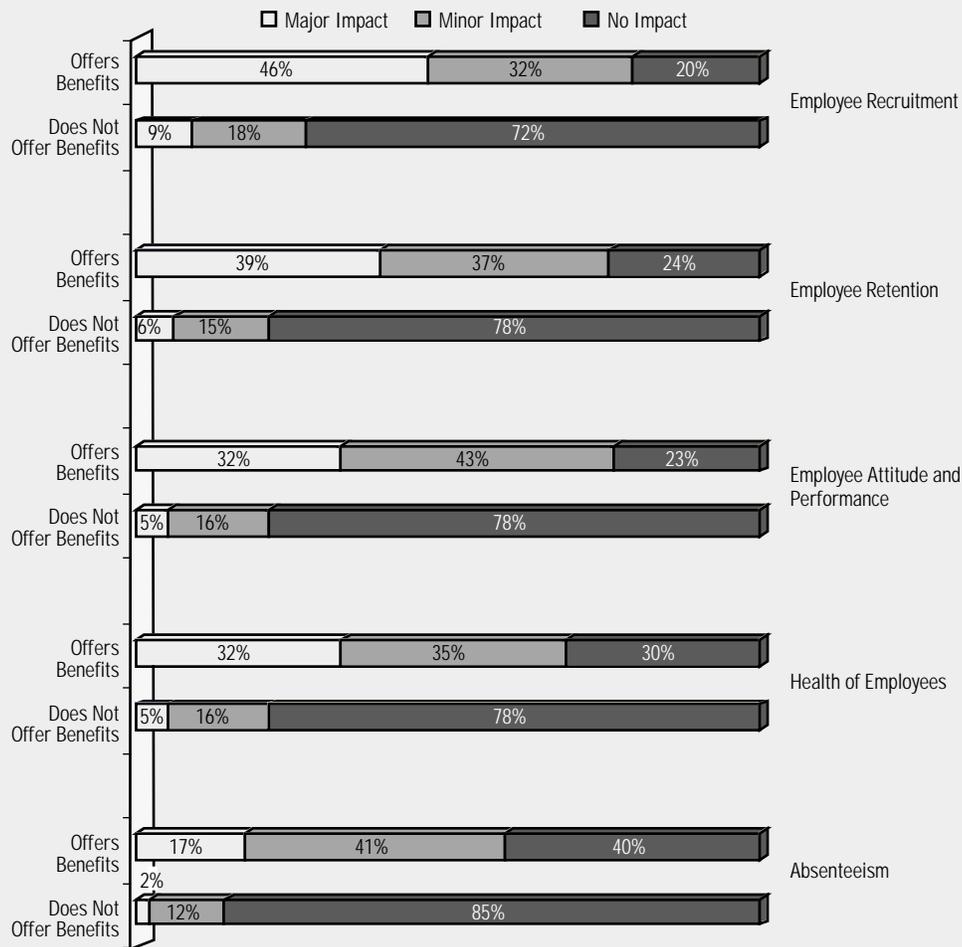
Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

benefits (chart 4). It is possible that some decision makers may be unaware of, or underestimating, the effect that their firm's lack of coverage has on turnover. However, respondents without health benefits who describe their employee turnover as high or moderate are more likely than those with little turnover to report that

not offering health insurance has an impact on recruitment, retention, performance, health status, and absenteeism (table 3).

Just as larger employers are more likely than smaller employers to experience an impact from offering benefits, larger employers that do not offer health

Chart 3
Impact of Offering or Not Offering Health Benefits to Employees



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

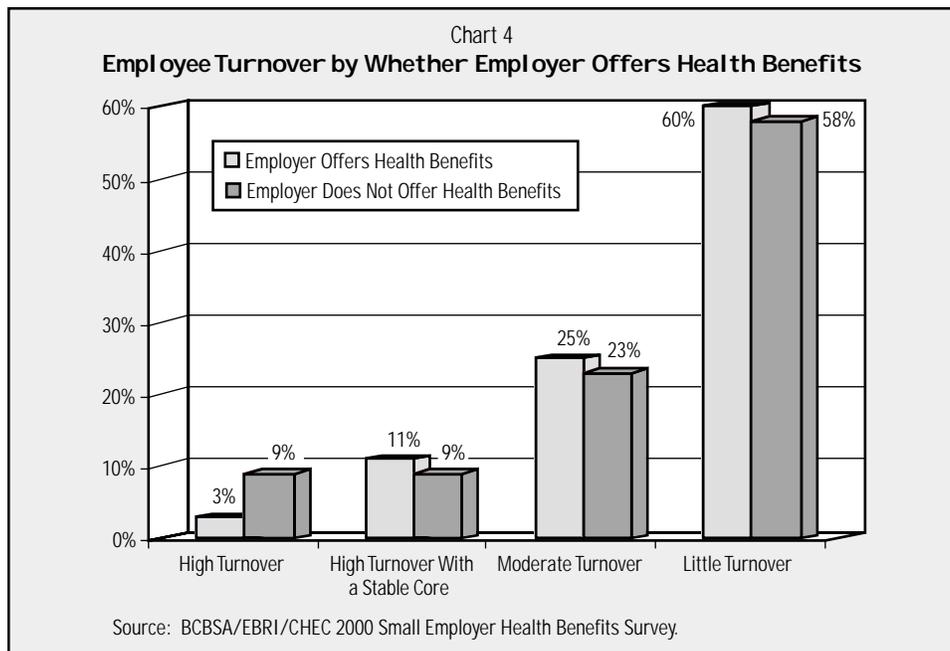


Table 3
Impact of Not Offering Health Benefits, by Employee Turnover

	High or Moderate Turnover		Little Turnover	
	Major impact	Minor impact	Major impact	Minor impact
Employee Recruitment	15%	27%	6%	11%
Employee Retention	11	20	3	10
Employee Attitude and Performance	7	26	5	8
Health of Employees	6	20	4	13
Absenteeism	3	18	2	7

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

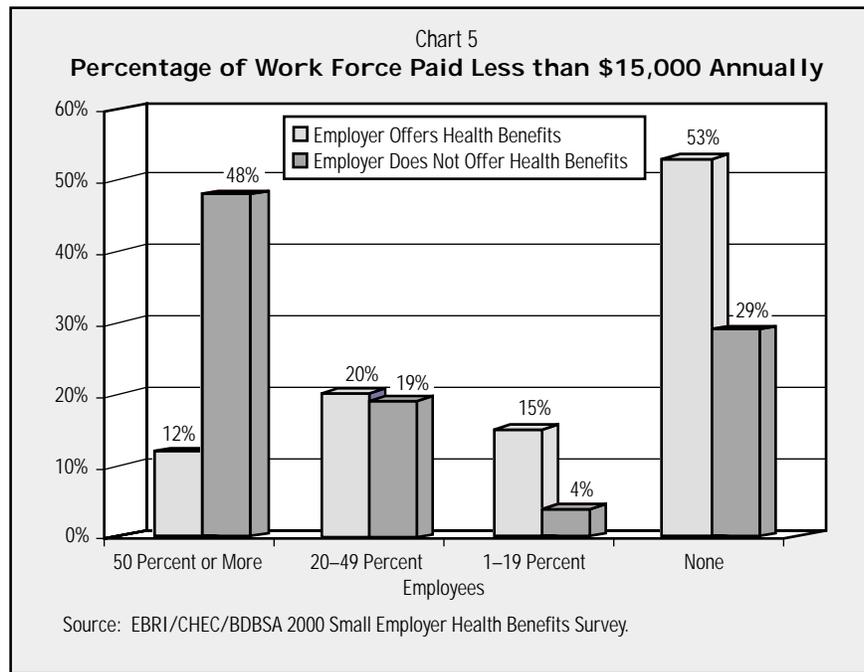
Table 4
Impact of Not Offering Health Benefits, by Size of Business

	Total		2–9 Workers		10–24 Workers		25–50 Workers	
	Major impact	Minor impact	Major impact	Minor impact	Major impact	Minor impact	Major impact	Minor impact
Employee Recruitment	9%	18%	8%	15%	12%	34%	15%	40%
Employee Retention	6	15	5	12	10	27	12	34
Employee Attitude and Performance	5	16	5	14	9	23	7	37
Health of Employees	5	16	4	15	8	22	6	19
Absenteeism	2	12	2	10	2	22	4	31

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

benefits are more likely than their small employer counterparts to report an impact due to their lack of employee health coverage. More than 50 percent of employers with 25 to 50 workers report that not offering health benefits has had a major or minor impact on employee recruitment (table 4). In addition, 46 percent report that not offering health benefits has had an

impact on employee retention, and 44 percent report that not offering health benefits has had an impact on employee attitude and performance. In contrast, roughly 20 percent of employers with two to nine workers perceive that not offering health benefits has had an impact on recruitment, retention, performance, health status of workers, and absenteeism.



Employer Profiles

Small employers that offer health benefits to workers tend to be distinctly different from

small employers not offering health benefits. This may partially explain why some companies find that offering or not offering health benefits has an impact on employee recruitment, retention, and performance, while others do not. It may also help explain why some firms do not offer workers health benefits in spite of experiencing an impact on their business as a result of not offering health benefits.

Worker Income

The income of workers in firms *not offering* health benefits tend to be considerably lower than worker income in firms that *do offer* health benefits. Nearly 50 percent of employers not offering health benefits pay wages of less than \$15,000 per year to 50 percent or more of their employees, compared with 12 percent of companies that do offer health benefits (chart 5).

In addition to differences in income, companies not offering health benefits are more likely than employers offering health benefits to have a smaller proportion of full-time employees. One-half of employers not offering health benefits, and 22 percent of employers offering health benefits indicate that fewer than 80 percent of their employees work full time (table 5). Firms that do

not offer health benefits also have larger proportions of females, workers under age 30, or minority employees.

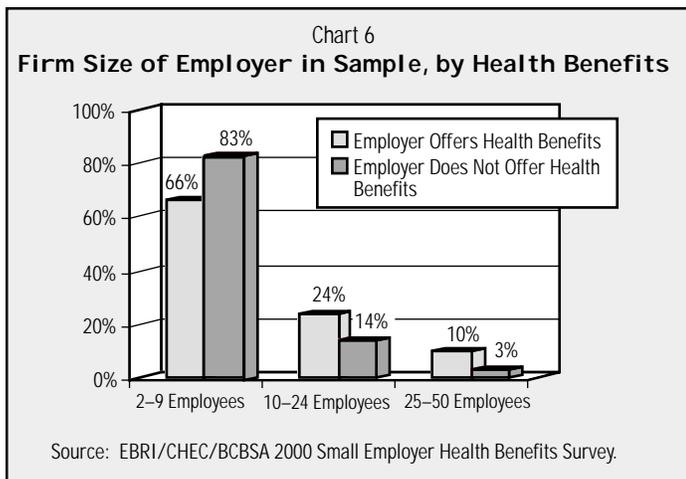
Firm Size and Revenue

Firms that do not offer health coverage tend to be smaller than those that offer coverage. Of the employers

Table 5
Work Force Characteristics

Percentage of Work Force	Employer Offers Health Benefits	Employer Does Not Offer Health Benefits
Full Time		
100%	56%	43%
80%-99%	21	6
50%-79%	15	26
Less than 50%	7	23
Female		
100%	6	16
80%-99%	7	5
50%-79%	28	32
Less than 50%	59	46
Under Age 30		
50% or more	17	30
20%-49%	37	27
1%-19%	20	6
None	26	38
Minority		
100%	3	8
50%-99%	8	13
20%-49%	13	11
1%-19%	15	6
None	58	56

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.



that do not offer health benefits, 83 percent employed fewer than 10 workers (chart 6). In contrast, of the employers that do offer health benefits, 66 percent employed fewer than 10 workers. In addition, employers not offering health benefits are more than twice as likely to have annual gross revenues of less than \$500,000. Sixty percent of employers that do not offer health benefits had annual gross revenue of less than \$500,000, compared with 27 percent among employers that do offer health benefits (table 6). While 29 percent of companies offering health benefits report annual gross revenues of \$1,000,000 or more, only 8 percent of employers not offering health benefits report this level of revenue. Some of the differences in revenues between companies with and without benefits result from the fact that firms with benefits tend to have more workers than those without benefits. However, companies with health coverage generally have higher gross revenues than those without benefits, even when comparing companies with similar numbers of employees.

Firm Tenure

Companies that do not offer workers health coverage generally have been in business for less time than have those that offer coverage. While both groups are equally

Table 7
Age of Business of Employers in Sample

Age of Business	Employer Offers Health Benefits	Employer Does Not Offer Health Benefits
Less than 5 Years	14	18
5-9 Years	17	25
10-14 Years	12	17
15-29 Years	30	25
30 Years or More	26	13

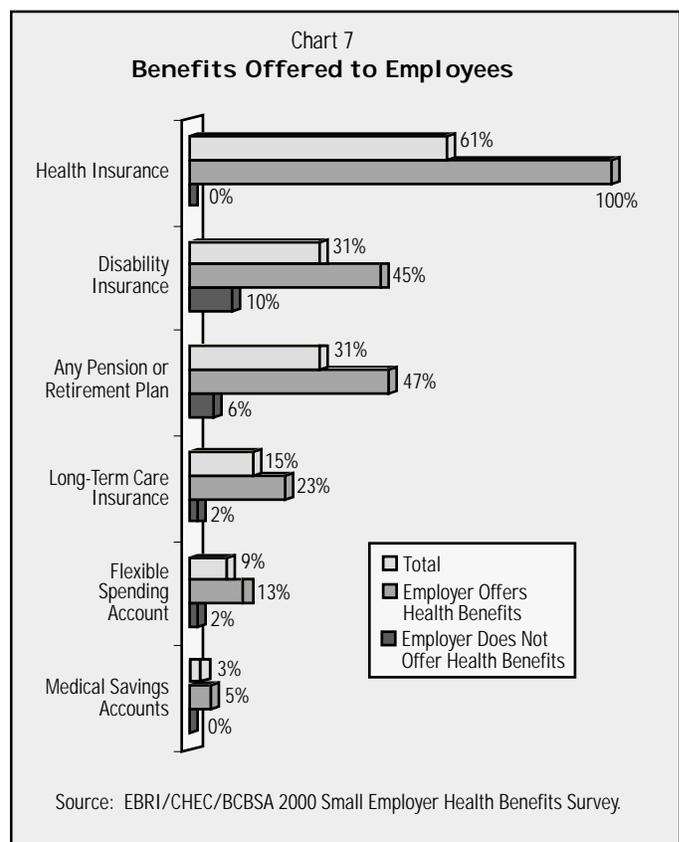
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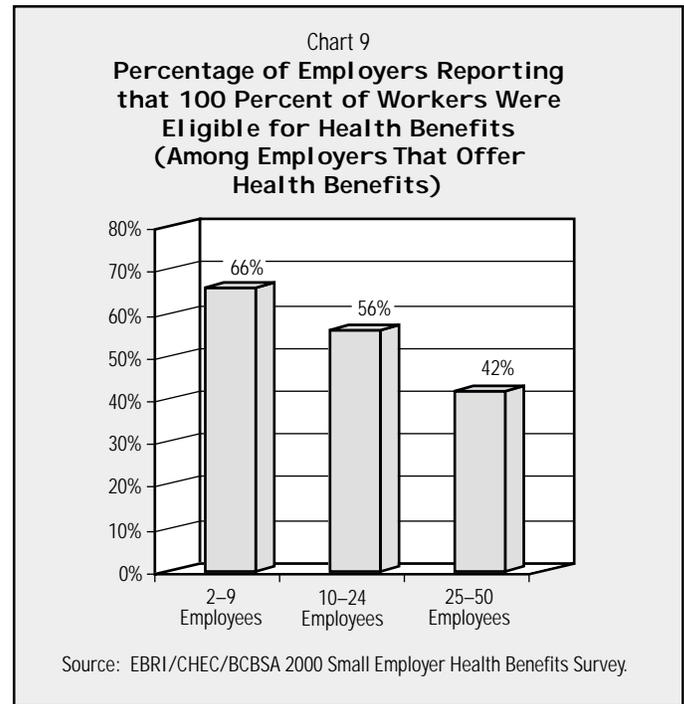
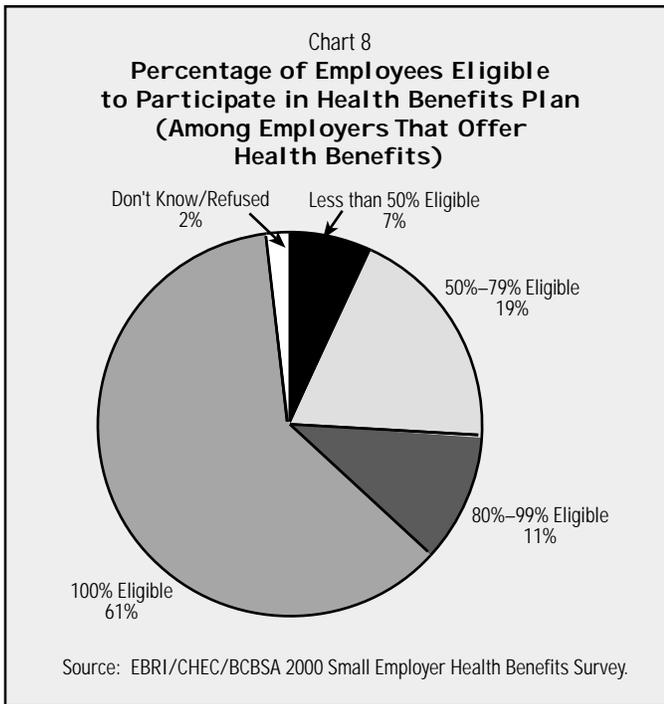
Table 6
Annual Gross Revenue of Employers in Sample

Annual Gross Revenue	Employer Offers Health Benefits	Employer Does Not Offer Health Benefits
Less than \$500,000	27%	60%
\$500,000-\$999,999	24	13
\$1,000,000-\$1,999,999	16	6
\$2,000,000-\$4,999,999	10	2
\$5,000,000 or More	3	0
Don't Know/Refused	20	20

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

likely to have been in business for less than five years (14 percent with health benefits; 18 percent without health benefits), 25 percent of those not offering benefits, compared with 17 percent of those offering health benefits, have been in business for five to nine years (table 7). Contrary to general belief, however, more than one-half of all employers not offering health coverage have been in business for at least 10 years. Seventeen percent have been in business for 10 to 14 years and 25 percent have been around for 15 to 29 years. Thirteen percent without benefits have been in business for 30 years or more.





Other Benefits

Firms that do not offer workers health coverage are unlikely to provide any of the other employee benefits examined in the survey. Just 10 percent of those not offering health benefits offer disability insurance (chart 7). Even fewer offer a pension or retirement benefit plan (6 percent), long-term care insurance (2 percent), or flexible spending accounts for health care (2 percent). In contrast, nearly one-half of companies that offer health benefits also offer pension or retirement benefits (47 percent) or disability insurance (45 percent). Twenty-three percent report that they provide long-term care insurance, 13 percent offer flexible spending accounts for health care, and 5 percent have medical savings accounts.

Employee Participation

Not all workers are eligible to take advantage of the health benefits offered by their em-

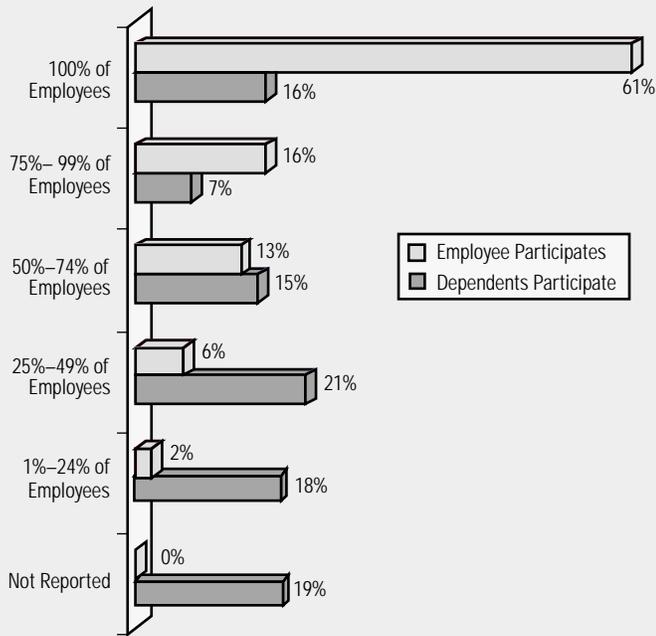
ployers. Just over 60 percent of employers offering health benefits report that all workers were eligible for health benefits (chart 8). Seven percent report that less than one-half of their workers were eligible to participate. Nearly 20 percent report that between 50 percent and 79 percent of workers were eligible to participate, while 11 percent report that between 80 percent and 99 percent were eligible.

As firm size increases, the percentage of workers eligible for health benefits when offered actually decreases. Specifically, 42 percent of respondents from firms with 25 to 50 employees report that 100 percent of their employees were eligible to participate in the health benefits plan (chart 9); this compares with 56 percent of employers with 10 to 24 employees and 66 percent of employers with two to nine employees. It is possible that the smaller firms have fewer part-time employees, who are generally not eligible for health benefits. Eighteen percent of the employers surveyed report that part-time employees were eligible for health benefits. Higher eligibility rates may be also due to minimum participation requirements. These requirements, in effect, require all workers to have health insurance coverage in order for an insurer to agree to provide coverage. It protects the insurer from the risk of adverse selection, in which healthy workers opt out of the health benefits plan and leave only the unhealthy (and more costly to cover) in the plan.

Not all employers that offer health benefits get full participation among eligible workers. Just over 60 percent of employers offering health benefits had 100 percent participation among employees (chart 10). Among employers that offer health benefits to dependents (13 percent did not offer health benefits to dependents), take-up rates were much lower for dependents. A mere 16 percent report that all employees eligible for dependent coverage actually included dependents in the health benefits plan.

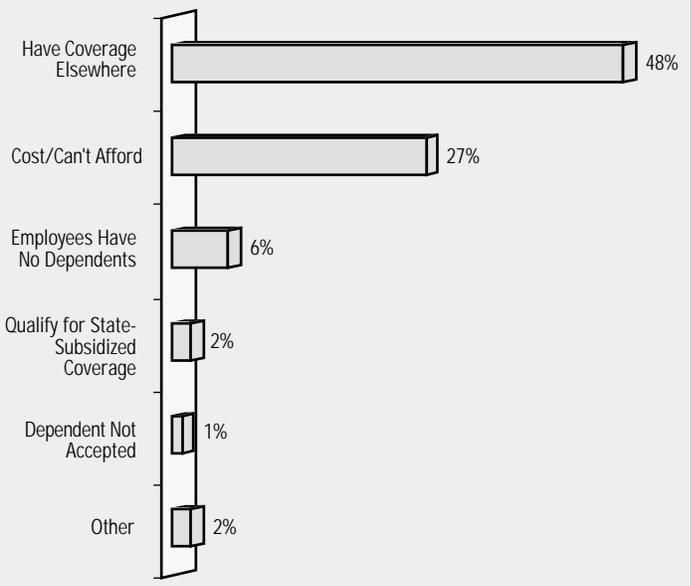
Employers reported a number of reasons why

Chart 10
Percentage of Eligible Employees and Dependents Participating in Health Plan (Among Employers Offering Health Benefits)



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Chart 11
Reasons Eligible Employees Might Not Obtain Dependent Coverage Among Companies Offering Family Coverage (Multiple Responses Accepted)



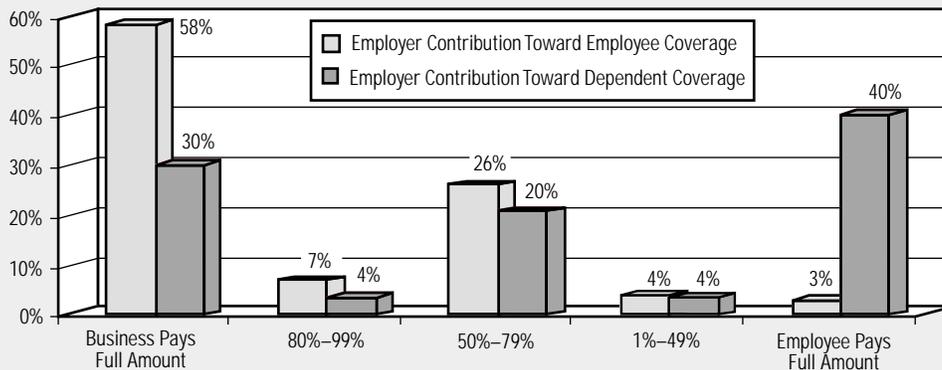
Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

workers do not accept health benefits for dependents, when this benefit is available. Nearly 50 percent of employers offering dependent coverage report that the workers decline dependent coverage because the dependents have coverage from elsewhere (chart 11). An additional 27 percent report their employees decline dependent coverage because they cannot afford the premiums. This finding is consistent with the fact that small employers tend to pay a greater share of the

premium for employee-only coverage than they pay for dependent coverage. While nearly 60 percent of employers pay the full premium for employee-only coverage, just 30 percent pay the full amount for dependent coverage (chart 12). Conversely, only 3 percent require the worker to pay the full amount for employee-only coverage, but 40 percent require them to pay the full amount for dependents.

As might be expected, the dependent take-up

Chart 12
Employer Contribution Toward Employee-Only Coverage and Dependent Coverage When Offered



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Table 8
Offered Plan in Past and Obtained Information, by Size of Business

	Total	2-9 Workers	10-24 Workers	25-50 Workers
Offered Health Plan in Past Five Years				
Yes	12%	11%	17%	28%
No	86	87	82	69
Don't know	2	2	1	3
Contacted Someone for Information in Past Two Years				
Yes	31	28	40	51
No	68	70	58	46
Don't know	2	2	3	3

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

rate is considerably higher in firms that contribute at least some percentage toward the cost of the coverage than it is in firms where the employee is required to pay the full amount. The average take-up among employers that contribute something toward coverage is 56 percent, compared with an average take-up of 23 percent among employers that do not contribute toward the cost of dependent coverage.

Likelihood of Offering Benefits

Some employers not currently offering health benefits

have offered them in the past. Overall, 12 percent of companies that do not currently offer health benefits report their business has offered some type of health benefits plan in the past five years (table 8). In fact, the larger the size of the employer, the more likely it offered health benefits in the past. Eleven percent of employers with two to nine employees have offered health benefits in

the past five years, compared with 17 percent among employers with 10 to 24 employees, and 28 percent among employers with 25 to 50 employees.

Reasons For Not Offering Benefits

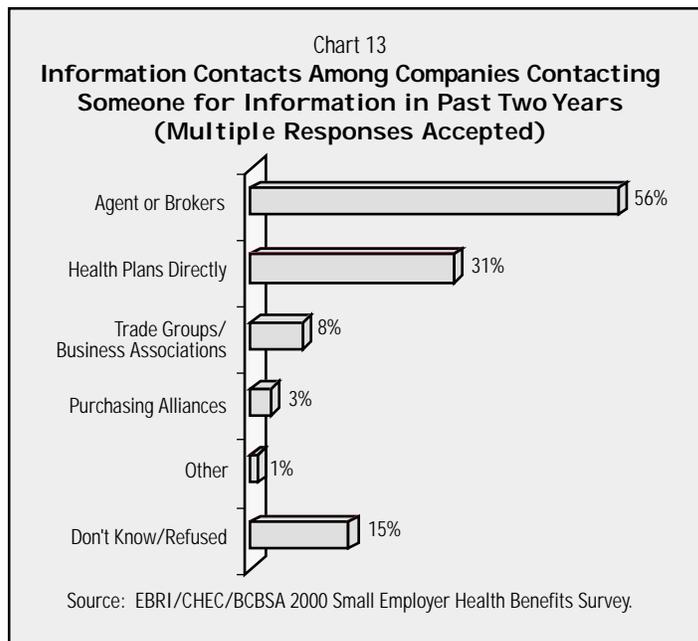
Financial concerns, together with the availability of coverage elsewhere, are the reasons most frequently mentioned by small employers for not offering health benefits to workers. Nearly 70 percent of employers not offering health benefits report that a major or minor reason was that their business cannot afford to offer them (table 9). In addition, 56 percent report that revenue is too uncertain to commit to offering a health benefits plan, and 61 percent report that their company does not have a plan because employees have coverage elsewhere. More than 50 percent report that they do not offer health benefits because the owner of the business has health insurance coverage from somewhere else, and nearly 55 percent reported that their employees were not able to afford health benefits.

The reasons for not offering health benefits generally do not vary by size of firm, although there are

Table 9
Reasons for Not Offering a Health Plan

	Major Reason	Minor Reason	Not a Reason
The business cannot afford it.	53%	16%	30%
Employees have coverage elsewhere.	43	18	35
Revenue is too uncertain to commit to a plan.	40	16	43
Owner has coverage elsewhere.	40	13	45
Employees cannot afford it.	37	17	43
Large portion of workers are seasonal, part time, or high turnover.	34	15	49
Employees prefer wages and/or other benefits.	30	20	47
Company does not need to offer a plan to recruit and retain good workers.	18	17	63
Setting up a plan is too complicated and time consuming.	11	20	68
Employees are healthy and do not need it.	10	17	71
Do not know where to go for information on starting a plan.	8	21	71

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.



some notable exceptions. Employers with between 10 and 50 workers are more likely than smaller firms to cite several employee-related reasons for not offering health benefits. They were more likely to report that their employees cannot afford it (53 percent with two to nine workers; 65 percent with 10 to 24 workers; 67 percent with 25 to 50 workers). They were more likely to report that a large portion of their workers are seasonal, part time, or high turnover employees (46 percent with two to nine workers; 68 percent with 10 to 24 workers; 69 percent with 25 to 50 workers), and they were more likely to report that they do not need to offer health benefits to recruit and retain workers (33 percent with two to nine workers; 46 percent with 10 to 24 workers; 51 percent with 25 to 50 workers).

Information

The survey also found that employers not offering health benefits have tried to get information about health benefits. Overall, 31 percent report that they have contacted someone for information on health benefits in the past two years (table 8). Again, larger firms are more likely than smaller ones to have contacted someone for information in the past two years. Nearly 30 percent of employers with two to nine employees have contacted someone for information, compared with 40 percent among firms with 10 to

24 employees, and 51 percent among firms with 25 to 50 employees.

Where did they go for help? Among those that contacted someone for information, 56 percent report that they contacted

an insurance agent or a broker, and 31 percent contacted health insurers directly (chart 13). Nearly 10 percent report that they requested information from trade groups or business associations, and 3 percent obtained information from purchasing alliances.

Cost Awareness

Many employers that do not offer health benefits appear to have a fairly accurate idea of the cost of health insurance coverage. According to Levitt et al. (1999), the average cost of health benefits for employers with three to 199 workers was \$189 per month. Twenty-three percent of the employers responding to the survey report that health benefits cost between \$100 and \$199 per month, and 11 percent think it costs between \$200 and \$299 per month (table 10). In contrast, 13 percent

estimated the average cost per worker of employee-only coverage to be less than \$100 per month, and 29 percent reported they do not know how much this coverage costs.

Cost Sharing

While the surveyed employers had a good sense of the actual cost of health benefits, they were willing to pay far less on behalf of their employees. In fact,

Table 10
**Estimate of Monthly Cost and Amount
 Willing to Pay Toward Employee-Only
 Coverage (Among Employers Not Offering
 Health Benefits)**

	Estimate of Cost	Amount Willing to Pay
Nothing at All	—	23%
Less than \$50	3%	6
\$50–\$99	10	10
\$100–\$199	23	8
\$200–\$299	11	5
\$300 or More	23	3
Don't Know	29	43

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Table 11
**Likelihood of Offering Health Benefits in the Future,
 Among Employers Not Offering Health Benefits,
 by Selected Indicators**

	Extremely or Very Likely	Somewhat Likely	Not Too or Not at All Likely
Company Started Less Than 10 Years Ago	69%	56%	35%
Contacted Someone for Information on Health Insurance in Past Two Years	62%	44%	22%
Median Amount Willing to Pay per Worker on Monthly Basis on Behalf of Employees for Health Insurance	\$100	\$50	\$0
Not Offering Health Plan has Impact on:			
Employee recruitment	57%	36%	20%
Employee retention	36	30	15
Employee attitude and performance	40	30	16
Health of employees	34	31	17

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

most employers either did not know how much they were willing to pay or they were not willing to contribute anything. Specifically,

23 percent of employers that do not offer benefits report they are not willing to pay any amount toward the cost of their workers' health insurance coverage, and 43 percent do not know how much their company would be willing to pay (table 10). Only 8 percent report that they are willing to pay at least \$200 per worker per month. Another 8 percent report that they would contribute between \$100 and \$199.

Potential Benefit Sponsors

Nearly 30 percent of firms that do not currently offer health benefits are potential purchasers of health benefits for their employees. Twelve percent of employers not currently offering health benefits said they are either extremely or very likely to start offering a health benefits plan for employees in the next two years (chart 14). An additional 17 percent are somewhat likely to start a health benefits plan. Still, 70 percent of employers not offering health benefits are not likely to offer them in the next two years.

Companies likely to start a health benefits plan differ in a number of ways from others not currently offering a plan. Those likely to start a health benefits plan are more apt to have

been in business for less than 10 years. Nearly 70 percent of employers not offering a health benefits plan, but who are extremely

or very likely to offer one in the next two years, report that they have been in business for less than 10 years (table 11). In contrast, only 35 percent of those not likely to offer health benefits have been in business less than 10 years. This indicates that a promising opportunity for expanding health insurance coverage lies among small employers that have not been in business for a very long period of time.

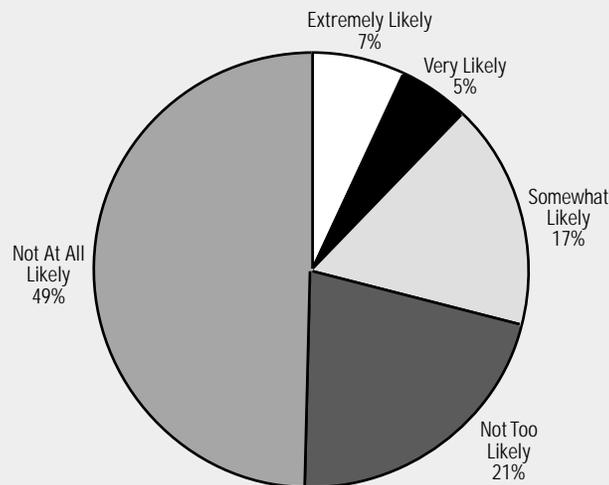
Employers who are extremely or very likely to offer a health benefits plan are also more likely to have contacted someone for information about health insurance in the past two years. They tend to report that they are willing to pay more toward the cost of health coverage on behalf of their employees; however, the average

amount they are willing to pay (\$100 per month) is still one-half the actual average cost of coverage. They are also more likely to report that not offering health benefits has had an impact on employee recruitment, retention, performance, and the health status of their employees.

Factors That Would Encourage Sponsorship

Employers not offering health benefits were read a list of factors that might make their business more

Chart 14
**Likelihood of Employer Offering Health Benefits in Next Two Years
 (Among Companies Not Offering a Health Plan)**



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

likely to seriously consider offering a health benefits plan. Not surprisingly, respondents are most inclined to say that factors having to do with increasing the affordability of health insurance coverage would make them more likely to consider offering health coverage. If the government provided assistance with premiums, 64 percent would seriously consider offering health benefits (chart 15). Also, 57 percent would consider offering health benefits if there were an increase in the business's profits, and 43 percent report that they would consider doing so if insurance costs fell 10 percent. However, 50 percent would be more likely to seriously consider offering a health benefits plan as a result of employee demand. More than one-third (36 percent) would consider offering a health benefits plan if it improved recruitment and retention.

Respondents who say that their company is likely to start offering health benefits in the next two years are more likely than those not likely to offer health benefits to indicate the following: Among those extremely

or very likely to start offering a health benefits plan, majorities say their company would be *much* more likely to seriously consider offering a plan if there were an increase in profits (73 percent) or if the government provided assistance with premiums (65 percent). Almost one-half would be *much* more likely to do so if insurance costs fell 10 percent (48 percent) or if it would improve recruitment and retention (48 percent).

A large number of companies not offering health benefits state they would need major government subsidies for them to provide health insurance coverage. Roughly 20 percent would need to receive a subsidy of between 25 percent and 49 percent of the premium, and 22 percent would need to receive a subsidy of between 50 percent and 74 percent of the premium (chart 16). One in 10 each would require a subsidy of between 75 percent and 99 percent, or a subsidy covering the entire premium. Seven percent state they would not provide coverage even if the government paid the entire cost of the premium. Among those who indicate they

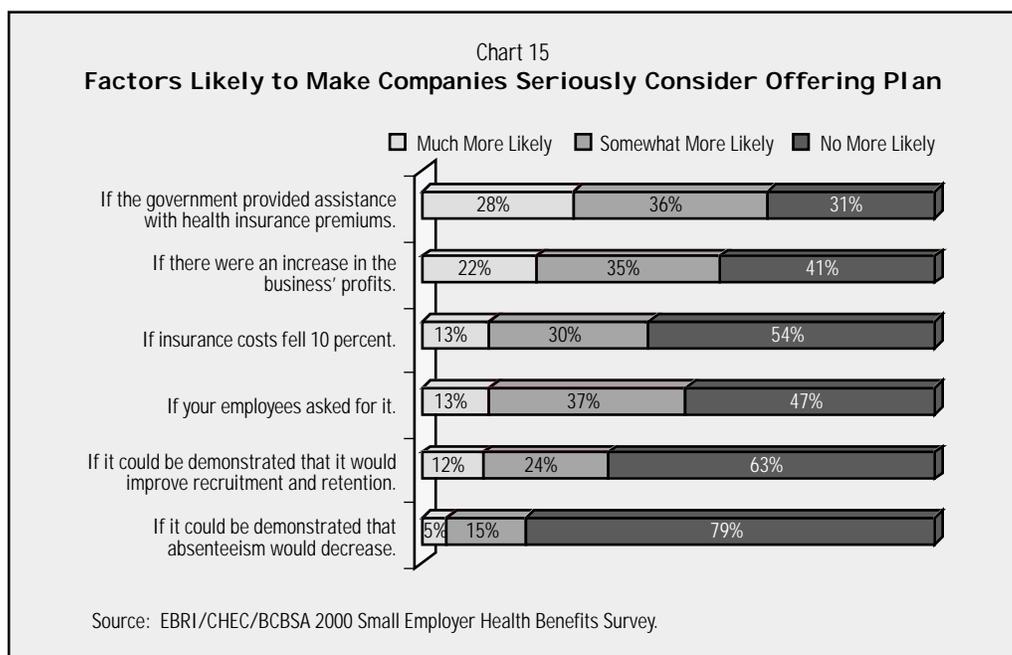
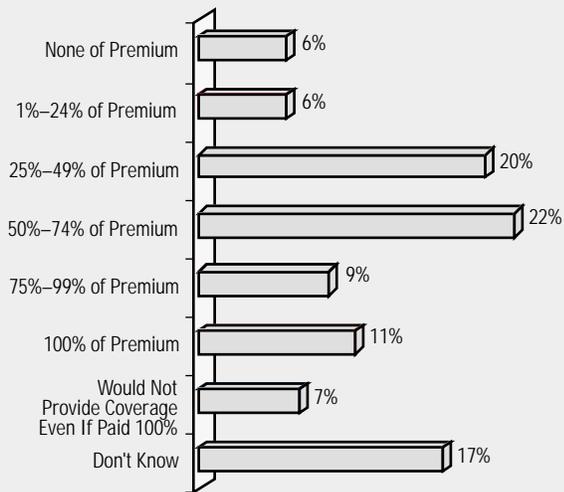


Chart 16
Percentage of Premium Costs Needed from Government for Company to Provide Plan (Among Companies Not Offering a Health Plan)



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

would require subsidies of at least 50 percent to offer coverage, three-fourths say they would be more likely to consider offering health benefits if they were able to receive cash from the government for 50 percent of the premium on a quarterly basis and would not have to repay this money (38 percent much more likely; 38 percent somewhat more likely).

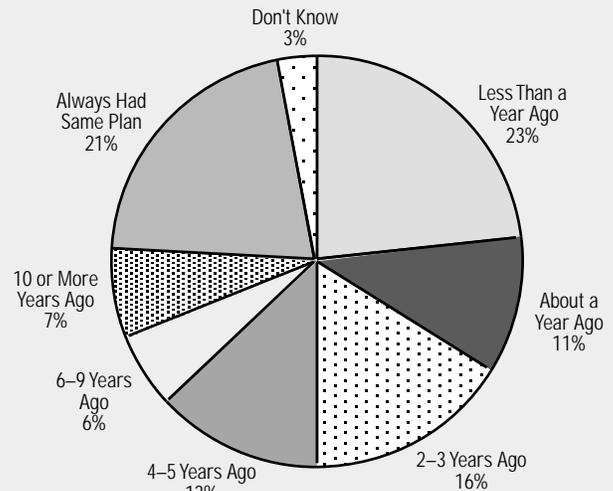
Future Costs & Tax Incentives

Many small employers with health benefits have recently

switched health plans. Just over one-third report that they switched health plans within the past year, with 23 percent reporting that they switched plans within the past year and another 11 percent reporting that they switched plans about one year ago (chart 17). Overall, 63 percent report that they have switched plans within the past five years. Twenty-one percent indicate that their business has always had the same plan.

Affordability for the employer and the worker is a clearly a critical factor affecting the likelihood of switching health plans. Nearly all employers that have switched health plans within the past five years cite price or cost as a reason for the change (chart 18). Nearly 80 percent report that it is a major reason for having changed health plans. Other reasons for switching health plans include wanting different benefits, wanting

Chart 17
When Last Switched to New Plan (Among Companies Offering a Health Plan)

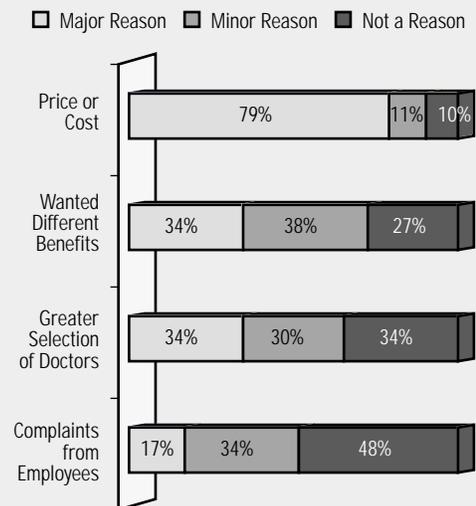


Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

a greater selection of doctors, and complaints from employees, though none had the impact that price or cost had on the decision.

Moreover, 33 percent of respondents from companies offering health benefits think their firm would change coverage and 5 percent think it would drop coverage if the cost of health insurance in general were

Chart 18
Reasons for Switching Plans (Among Companies Switching Plans Within the Past Five Years)



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

Table 12
Potential Small Employer Reaction to Increase in Health Insurance Costs

If Cost Increased:	Continue to Offer Current Coverage	Change Coverage	Drop Coverage	Don't Know
1 percent	84%	10%	3%	3%
5 percent	57	33	5	5
10 percent	34	46	14	6
25 percent	16	51	28	6

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

to increase by 5 percent (table 12). If costs increased only 1 percent, 10 percent would change coverage and 3 percent would drop coverage. In contrast, if costs increased 10 percent, 46 percent would change coverage, while 14 percent would drop coverage.

Many employers report that they will drop coverage if costs increase. This may not be easy to do in the currently tight labor market. For example, while costs were increasing 7 percent between 1998 and 1999, the percentage of small employers offering health benefits also increased (Levitt et al., 1999). Some employers dropped health benefits in response to the cost increase, but even more added health benefits, many for the first time.

In general, small employers support tax breaks to reduce the health insurance costs of low-wage workers. More than one-half (56 percent) strongly favor tax breaks that they could use to reduce health insurance costs for their low-wage workers (table 13). An additional 30 percent would somewhat favor such a proposal. Just 7 percent would somewhat or strongly oppose it. Companies that currently offer health benefits are slightly more likely than those that do not to strongly or somewhat favor it. Nearly 90 percent of employers offering health benefits favor the tax credits, compared with 82 percent of employers not offering health benefits.

as perhaps the most crucial element in efforts to expand health insurance coverage in the current health insurance system and reduce the growing number of uninsured Americans.

The 2000 Small Employer Health Benefits Survey was conducted in order to better understand how more small employers could be persuaded to offer health benefits. This *Issue Brief* presented a number of important findings from the SEHBS concerning small employers and their decision to offer health benefits to workers. Perhaps the most surprising finding is the fact that many small employers are making decisions about whether or not to offer health insurance coverage to their workers without being fully aware of the tax advantages that can make this benefit more affordable. Also, many small employers are largely unaware of the state and federal laws that have been enacted specifically to make health insurance more accessible and more affordable for them. The implications of these findings are significant.

It is important for employers to understand the tax treatment of health benefits for a number of reasons. Misperceptions about how health benefits are taxed may prevent employers from offering health benefits to begin with. Also, if employers are unaware of how the tax code affects their workers, it is likely that the workers are also unaware of it, and also do not know the true value

Conclusion

While employment-based health insurance is by far the most common form of

health insurance coverage in the United States, many workers are not offered health benefits or do not participate in the plan when it is offered. Of the 44 million Americans who do not have health insurance coverage, 36 million are in a family with a worker, and small firms employ 60 percent of uninsured workers. Since the vast majority of large employers offer health benefits, but many small employers do not, small businesses are seen

Table 13
Support for Tax Breaks to Reduce Health Insurance Costs for Low-Wage Workers

	Total	Employer Offers Health Benefits	Employer Does Not Offer Health Benefits
Strongly Favor	56%	59%	53%
Somewhat Favor	30	30	29
Somewhat Oppose	4	3	5
Strongly Oppose	3	2	3
Depends	4	3	6
Don't Know	3	3	3

Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.

of the health benefits they are being offered. Furthermore, it is important for small employers to understand how the insurance market is regulated. Misconceptions about the market may result in fewer employers offering coverage because they were under the impression that they could not obtain it or that they could not afford it due to the health status of their workers.

Other findings suggest that there are a number of ways in which the number of workers (and their dependents) covered by health insurance could be expanded. First, most employers offer sound business reasons for offering health benefits to workers. Employers not offering health benefits generally do not perceive that the lack of health benefits has an impact on their business, although there is evidence that it does. This survey found that employers not offering health benefits are more likely than those offering them to report that most of their employees stay with the business for only a few months. Second, not all workers take advantage of the health benefits that are offered by their employers, and not all employers offer dependent coverage. The survey found that the average take-up rate is higher among employers that contribute at least something toward the cost of health benefits. Third, nearly 30 percent of small employers not currently offering health benefits say they are likely to offer it in the next two years. If employers were given financial incentives to offer health benefits, health insurance coverage might be expanded substantially. Finally, employers are sensitive to the cost of providing health benefits. As just mentioned, if the cost of providing health benefits were reduced, more small employers would offer them. In contrast, if the cost of providing health benefits continues to increase, some employers will drop health benefits, ultimately increasing the challenge to expand health insurance coverage. In a tight labor market, few employers will drop coverage—but if the economy were to weaken, the effects of cost increases on both the offering of health benefits by employers and the take-up by workers are likely to be substantial.

Methodology

The Small Employer Health Benefits Survey (SEHBS) was designed to

examine the reasons America's small employers (with two to 50 workers) offer or do not offer health benefits to their workers and related issues. The survey was conducted within the United States between May 16 and June 30, 2000, through 20-minute telephone interviews with 506 companies with health benefits and 449 companies without health benefits. Within each group, quotas were established to ensure sufficient representation for analysis by number of employees. The resulting sample was weighted by presence of plan and number of employees to reflect the national population of small employers with two to 50 workers.

In theory, the weighted sample of 955 yields a statistical precision of plus or minus four percentage points (with 95 percent certainty) of what the results would be if all nongovernment businesses with two to 50 workers were surveyed with complete accuracy. There are other sources of error on all surveys, however, that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, and screening. While attempts are made to minimize these factors, it is difficult or impossible to quantify the errors that may result from them.

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